

## **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON INDAKA MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the Indaka Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Restatement of corresponding figures**

6. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figures of Property, plant and equipment, Trade and other payables, Lease liability and Accumulated surplus. As described in note 33 to the financial statements, the restatement of R4,745 million was made in order to rectify prior year misstatements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the corresponding figures were necessary.

## **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Indaka Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Unauthorised expenditure**

9. As disclosed in note 34.2 to the financial statements, the municipality incurred unauthorised expenditure of R1,220 million, due to unbudgeted expenditure.

### **Irregular expenditure**

10. As disclosed in note 34.1 to the financial statements, the municipality incurred irregular expenditure totalling R15,874 million, as payments have been made to suppliers without following proper tender procedures.

### **Fruitless and wasteful expenditure**

11. As disclosed in note 34.3 to the financial statements, the municipality incurred fruitless and wasteful expenditure totalling R2,837 million, as payments have been made to suppliers arising from late payments of creditors.

## **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

#### **Usefulness of information**

##### **Presentation**

18. Improvement measures in the annual performance report for 100% of the planned targets not achieved were not disclosed as required by section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

##### **Consistency**

19. There was no consistency between planning and reporting documents, as required by section 41(c) of the MSA (act). The act requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. This is due to the lack of understanding and/or compliance by management of the requirements of the applicable legislation and National Treasury guidelines.

## **Measurability**

### **Performance indicators/Measures not well defined**

20. The *National Treasury Framework for managing programme performance information* (FMPPF) requires that indicators/measures should have a clear unambiguous definition so that data is collected consistently and is easy to understand and use. Indicators relevant to Basic Service Delivery and Infrastructure were not well defined, in that, clear, unambiguous data definitions were not available to allow for data to be collected consistently.

## **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

22. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the Municipal Systems Act, 2000 (Act No.32 of 2000) and regulation 6 of Municipal Planning and Performance Management Regulations of 24 August 2001.

### **Annual financial statements**

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving a qualified audit opinion.

### **Audit committee**

24. The Audit committee did not substantially perform its functions for the year, as required by section 166 of the MFMA.

## **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified audit opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

26. The accounting officer did not exercise effective oversight over policies and procedures regarding supply chain and performance management to enable and support understanding and execution of internal control objectives, processes and responsibilities.

### **Financial and performance management**

27. A system for monitoring compliance has not been established to prevent non-compliance with laws and regulations resulting in material corrections to the financial statements.
28. Management has not implemented controls over the preparation, review and reconciliations over the reporting of performance against predetermined objectives.

### **Governance**

29. The municipality did not have an effective and functioning audit committee during the financial year under review. This also impacted on the committee's oversight role over internal audit.

### **Other reports**

#### **Investigations completed**

30. As part of the Provincial Department of Co-operative Governance and Traditional Affairs intervention at the Indaka Municipality, a forensic investigation was instituted into matters relating to procurement and financial controls. The investigation was finalised on the 30 November 2010. The municipality is currently acting on the recommendations indicated in the forensic report.

*Auditor-General*

Pietermaritzburg

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*